



**BANK OF ENGLAND**

# News release

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## **Bank of England Quarterly Bulletin - Spring 2005**

The Spring issue of the Bank of England Quarterly Bulletin is published today. Among the articles and reports it contains are:

### **Dealing with data uncertainty**

True values of key economic variables - such as GDP - are unobservable and can only be estimated. The Office for National Statistics (ONS) produces official estimates of the variables derived from comprehensive surveys. However, these can only ever be an approximate guide to the true underlying economic state. Moreover, there is an inescapable trade-off between timeliness and accuracy. This means that early or 'preliminary' ONS estimates will inevitably be revised as more information is received and processed. A key question for the Monetary Policy Committee (MPC) is how best to take account of data uncertainty when assessing economic conditions.

ONS estimates are not the only source of information on the underlying state of the economy. Policymakers also have access to a wide range of business surveys. These surveys have limitations: for example, they are based on relatively small samples, especially compared with the large annual surveys that the ONS uses to produce its final estimates. But survey data are timely and can be usefully combined with ONS estimates - especially in the early stages of the ONS data cycle. This article sets out a simple methodology for constructing 'best guesses' of the true value of economic variables by combining ONS estimates with business surveys.

Charlie Bean - Executive Director and Chief Economist at the Bank of England - commented, "This 'best guess' methodology is used frequently within the Bank. The recognition of data uncertainty by policymakers reflects the inherent difficulty of measuring a large and complex economy in an accurate and timely way. As the article notes, economic assessment is always a matter of judgement".

### **Indicators of short-term movements in business investment**

This article focuses on the uncertainty surrounding business investment data. As official business investment data are frequently revised, it can be difficult to draw inferences about underlying trends in investment using the latest official data alone. Several survey indicators - for example, from the British Chambers of

Commerce and the CBI - contain information about the path of investment. The article looks at ways of combining survey indicators with official data to provide a more accurate guide to underlying investment trends.

### **Inside the MPC**

This article provides a guide to the workings of the Bank of England's Monetary Policy Committee (MPC) and is authored by Richard Lambert, one of the four external MPC members who are appointed by the Chancellor. Describing the article as "an insider's view of the MPC at work", Mr Lambert discusses the build-up to the monthly interest rate meetings, the meetings themselves and the quarterly forecast round.

Also in the Spring 2005 Bulletin:

- a regular commentary on 'Markets and operations';
- articles 'Divisia money' and 'The role of central banks in payment systems oversight';
- summaries of recent Bank of England working papers and speeches.

### **Note to Editors**

Copies of the Quarterly Bulletin are available from the Publications Group, Bank of England, Threadneedle Street, EC2R 8AH (Tel: 020 7601 4030; fax 020 7601 3298) or from the Quarterly Bulletin pages.